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Message Text

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13
ACTION EB-07

INFO OCT-01 EUR-12 NEA-09 ISO-00 FEA-01 AID-05 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 RSC-01 TRSE-00 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-01 CEA-01 PRS-01 DODE-00 PM-03 H-01 L-02

PA-01 USIA-06 /096 W
---------- 046947
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INFO AMEMBASSY BEIRUT
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AMEMBASSY KUWAIT
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
USMISSION EC BRUSSELS
USMISSION OECD PARIS

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E.O. 11652: NA
TAGS: ECON, EFIN, EAID, IR
SUBJ: LOWER INTEREST RATES IN IRAN AND POSSIBLE REDUCED FOREIGN LENDING

REF: (A) TEHRAN 10963; (B) TEHRAN 6196 OF AUG 30, 1973; (C) TEHRAN 6153 OF AUG 29, 1973

1. SUMMARY. CENTRAL BANK OF IRAN DISCOUNT RATE HAS BEEN LOWERED FROM 9 TO 8 PERCENT AND OVERALL SPECIALIZED AND COMMERICAL BANK LENDING RATES REDUCED BY ONE TO TWO PERCENTAGE POINTS. LOWER INTEREST RATES ARE IN LINE WITH CURRENT WORLD TRENDS AND NEEDS OF EXPANDING
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IRANIAN ECONOMY. CENTRAL BANK GOVERNOR HAS STATED REDUCTION

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IN OIL EXPORTS THIS MONTH MAY AFFECT IRANIAN CONTRIBUTION TO EXPANDED IMF OIL FACILITY BECAUSE OF LOWER OIL EXPORT EARNINGS PROSPECTS. END SUMMARY.

2. GOI ON JANUARY 22 ANNOUNCED REDUCTION OF CENTRAL BANK OF IRAN (CBI) DISCOUNT RATE FROM 9 TO 8 PERCENT AND BROAD REDUCTION OF INTEREST RATES THROUGHOUT FINANCIAL SYSTEM INCLUDING FOLLOWING:

A. RATE ON CBI LOANS TO SPECIALIZED BANKS WHICH FINANCE INDUSTRIAL, MINING, AGRICULTURAL, AND CONSTRUCTION PROJECTS REDUCED FROM 8 TO 6 PERCENT. THESE BANKS IN TURN ARE EXPECTED TO REDUCE THEIR LENDING RATES FOR SMALL-SCALE AND TRADITIONAL INDUSTRY TO 5 PERCENT, FOR AGRICULTURE FROM 8 TO 6 PERCENT, AND FOR INDUSTRY FROM 10 TO 8 PERCENT.

B. RATE ON CBI LOANS TO COMMERCIAL BANKS FOR FINANCING SAME TYPES OF LENDING REDUCED FROM 8 TO 7 PERCENT. COMMERCIAL BANKS DIRECTED BY CENTRAL BANK TO REDUCE THEIR LENDING BY ONE PERCENTAGE POINT TO 9 PERCENT FOR EXPORT FINANCING, 11 PERCENT FOR IMPORTS, CONSTRUCTION, AND OTHER "PRODUCTIVE" ACTIVITIES, AND 13 PERCENT FOR ALL OTHER LOANS.

C. NO CHANGE IS BEING MADE IN INTEREST RATES PAID BY BANKS ON TIME AND SAVINGS DEPOSITS AND ON IRANIAN TREASURY BILLS AND BONDS (REF B).

D. CEILING ON BANKING SYSTEM CREDIT TO THE PRIVATE SECTOR WILL BE RAISED FROM RLS 160 BILLION ($2.37 BILLION) IN THE IRANIAN YEAR ENDING MARCH 20, 1975, TO RLS 260 BILLION ($3.85 BILLION) FOR THE COMING IRANIAN YEAR.

E. REDUCTIONS WERE MADE IN AMOUNTS WHICH COMMERCIAL BANKS MUST KEEP ON DEPOSIT WITH CENTRAL BANK FOR VARIOUS CATEGORIES OF DEPOSITS. REDUCTIONS APPLY ONLY TO INCREASES IN DEPOSITS FROM CURRENT AMOUNTS.

3. IN JANUARY 24 PRESS CONFERENCE, WHICH WAS REPORTED IN PRESS ON JANUARY 25 AT SAME TIME AS BANK RATE CHANGES BECAUSE NO NEWSPAPERS APPEARED ON TWO PREVIOUS DAYS DUE TO RELIGIOUS HOLIDAYS, CENTRAL BANK GOVERNOR YEGANEH SAID IRANIAN CONTRIBUTION TO INCREASED LIMITED OFFICIAL USE

$7 BILLION IMF OIL FACILITY WILL DEPEND ON OVERALL SIZE OF FOREIGN EXCHANGE SURPLUS. HE REFERRED TO 12 PERCENT DROP IN COUNTRY'S OIL EXPORTS THIS MONTH (SEPTEL) WHICH WOULD MEAN REDUCTION OF $2.6 BILLION IN PROJECTED OIL EXPORT EARNINGS DURING 1975 (WHICH PREVIOUSLY WERE ESTIMATED AT ABOUT $22 BILLION). HE REITERATED GOI VIEW ENHANCED WORLD INFLATION FROM GOLD REVAUATION WOULD CALL FOR COUNTER MEASURES BY OPEC COUNTREIS TO PROTECT THE PURCHASING POWER OF THEIR PETRODOLLARS. MINISTER OFINTERIOR JAMSHID AMUZEGAR WAS

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QUOTED AS MAKING SAME POINT ON EVE OF HIS DEPARTURE TO ALGIERS MEETING OF OPEC MEMBERS.

4. COMMENT: IN TIGHTLY INTERCONNECTED AND STILL UNDERDEVELOPED IRANIAN BANKING SYSTEM INTEREST RATES VIRTUALLY NEVER FLUCTUATE BUT FOLLOW GUIDELINES SET BY CENTRAL BANK. REDUCTION OF THE DISCOUNT RATE AND LOWER INTEREST RATES IN GENERAL IS IN LINE WITH THE CURRENT WORLD TREND TOWARDS SOMEWHAT LOWER RATES AND WITH THE NEEDS OF THE IRANIAN ECONOMY. WHILE MEASURES PREVIOUSLY REPORTED (REF A) TO KEEP OUT LARGE CAPITAL INFLOWS WILL REMAIN IN EFFECT, LOWER INTEREST RATES MAKE IRAN LESS ATTRACTIVE TO SPECULATORS. EMBASSY HAS HEARD RECENT REPORTS OF INCREASED PRESSURE FROM PRIVATE SECTOR TO BORROW ABROAD, AND FOR SOME TIME HAS BEEN AWARE OF COMPLAINTS OF OVERLY TIGHT MONEY. ENORMOUS PUBLIC SECTOR INVESTMENTS EITHER PLANNED OR ALREADY IN MILL HAVE INCREASINGLY IMPINGED ON CAPITAL AVAILABLE TO PRIVATE SECTOR.

5. EASIER MONEY, OF COURSE, MEANS PROBLEM OF KEEPING INFLATIONARY PRESSURES UNDER CONTROL WILL BECOME MORE DIFFICULT. HOWEVER, WITH INFLATIONAT LEAST NOT HAVING NOTICEABLY WORSENED IN RECENT MONTHS, GOI UNDOUBTEDLY FEELS TIME HAS COME FOR BOW TO DEMANDS OF BUSINESS COMMUNITY FOR MORE CAPITAL. MOREOVER, EASIER CREDIT AVAILABILITY IS IN LINE WITH CURRENT RAPID RATE OF GROWTH AND GREATLY EXPANDED BUDGET FOR NEXT YEAR (TEHRAN 10257). CBI DIRECTOR GENERAL FOR STATISTICS TAJDAR TOLD EMBOFF THAT MONEY SUPPLY DURING IRANIAN YEAR BEGINNING MARCH 21 PROBABLY WILL EXPAND BY ABOUT 40 PERCENT (COMPARED TO ABOUT 30 PERCENT ESTIMATED FOR THIS YEAR). MAINTAINING INTEREST RATES AT THEIR CURRENT LEVELS ON GOI SECURITIES AND COMMER-CIAL BANK DEPOSITS MEANS GOI HAS NOT SLACKENED ITS EFFORTS TO ATTRACT SAVINGS FROM THE PUBLIC.

6. SEEMS LIKELY SOME OF ADDITIONAL CREDIT WILL BE DEVOTED TO HOUSING. GOI REPORTEDLY PLANS TO FLOAT RLS 35 BILLION ($518 MILLION) IN HOUSING
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BONDS WHICH WOULD BE ABOUT 25 PERCENT OF A $2 BILLION PACKAGE TO FINANCE MIDDLE AND LOW INCOME HOUSING. FOR SOME TIME REPORTS HAVE BEEN CIRCULATING OF PLANNED GOI SUBSIDIES TO COMMERCIAL BANKS TO MAKE MORTGAGE LOANS TO MIDDLE AND LOWER INCOME GROUPS EASIER.

7. EMBASSY PREVIOUSLY HAS REPORTED INDICATIONS OF SLOWER PACE OF NEW IRANIAN LENDING COMMITMENTS ABROAD (TEHRAN 9699). WHILE ANY WELCHING ON COMIITEMENTS ALREADY MADE APPEARS UNLIKELY, ADDITIONAL FOREIGN LENDING WHICH MAY HAVE BEEN PLANNED UNDOUBTELY WILL BE REDUCED RATHER THAN ANY NECESSARY INPUTS FOR COUNTRY'S OWN NEEDS OR DEVELOPMENT. GOI CAN BE EXPECTED TO MONITOR FUTURE INTERNATIONAL MONETARY DEVELOPMENTS CLOSELY AS WELL AS TO PROTECT CURRENT REAL LEVEL OF OIL EXPORT EARNINGS.
MIKLOS

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